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Proposed programme budget for the biennium 2018-2019

Internal oversight: proposed programme budget for the biennium 2018-2019

Report of the Independent Audit Advisory Committee

Summary

The present report reflects the comments, advice and recommendations of the Independent Audit Advisory Committee on the proposed programme budget for the Office of Internal Oversight Services for the biennium 2018-2019.

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I. Introduction

1. The Independent Audit Advisory Committee has undertaken a review of the proposed programme budget for the Office of Internal Oversight Services (OIOS) for the biennium 2018-2019 in accordance with paragraph 2 (c) and (d) of its terms of reference (see General Assembly resolution 61/275, annex). The Committee's responsibility in this respect is to review the budget proposal of OIOS, taking into account its workplan, and to make recommendations to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions. The present report contains the Committee's comments, advice and recommendations relating to the proposed programme budget for OIOS for the biennium 2018-2019, for consideration by the Advisory Committee on Administrative and Budgetary Questions and the Assembly.

2. The Programme Planning and Budget Division of the Department of Management provided the Committee with the section of the proposed programme budget for the biennium 2018-2019 on internal oversight (A/72/6 (Sect. 30)), as well as relevant supplementary information. OIOS provided supplementary information relating to its budget proposal, which the Committee took into consideration. At its thirty-eighth session, held from 19 to 21 April 2017, the Committee allocated a significant proportion of its agenda to discussions with OIOS and with the Controller on the budget for OIOS.

3. The Committee would like to acknowledge the efforts of the Programme Planning and Budget Division in expediting the preparation of the internal oversight section of the budget for review by the Committee. The Committee also appreciates the cooperation on the part of OIOS in providing information for the preparation of the present report.

II. Review of the proposed programme budget for the Office of Internal Oversight Services for the biennium 2018-2019

4. The projected resources for OIOS for the biennium 2018-2019 from the regular budget, combined with other assessed and extrabudgetary funds, totalled $118,396,900, compared with $118,152,900 for the biennium 2016-2017, which is a slight increase of 0.2 per cent (see table 1, below).

Table 1
Financial resources by programme
(Thousands of United States dollars)

	2013-2013	2014-2015	2016-2017	2018-2019	Variance	
					2018-2019 compared with 2016-2017 appropriation	
Regular Budget	*Expenditure*	*Expenditure*	*Appropriation*	*Proposed budget (after recosting)*	*Amount*	*Percentage*
A. Executive direction and management	2 783.1	3 157.7	2 988.6	2 985.2	(3.4)	(0.1)
B. Programme of work	33 117.7	34 055.0	34 647.7	35 374.1	726.4	2.1
Subprogramme 1. Internal audit	15 290.7	15 711.4	16 793.1	16 868.3	75.2	0.4
Subprogramme 2. Inspection and evaluation	7 733.4	8 151.5	7 654.9	7 845.6	190.7	2.5
Subprogramme 3. Investigations	10 093.6	10 192.1	10 199.7	10 660.2	460.5	4.5

Regular Budget	*2013-2013* *Expenditure*	*2014-2015* *Expenditure*	*2016-2017* *Appropriation*	*2018-2019* *Proposed budget (after recosting)*	*Variance* *2018-2019 compared with 2016-2017 appropriation* *Amount*	*Percentage*
C. Programme support costs	2 600.8	2 567.0	2 512.1	2 757.0	244.9	9.7
Subtotal	**38 501.6**	**39 779.7**	**40 148.4**	**41 116.3**	**967.9**	**2.4**
Other assessed						
B. Programme of work	50 860.2	54 098.5	58 747.5	57 151.3	(1 596.2)	(2.7)
Subprogramme 1. Internal audit	33 770.0	36 161.0	37 172.9	35 155.4	(2 017.5)	(5.4)
Subprogramme 2. Inspection and evaluation	1 808.5	1 968.4	2 353.0	3 044.1	691.1	29.4
Subprogramme 3. Investigations	15 281.7	15 969.1	19 221.6	18 951.8	(269.8)	(1.4)
C. Programme support costs	1 537.7	1 727.2	1 728.5	2 381.7	653.2	37.8
Subtotal	**52 397.9**	**55 825.7**	**60 476.0**	**59 533.0**	**(943.0)**	**(1.6)**
Extrabudgetary						
A. Executive direction and management		6.3				
B. Programme of work	16 262.1	17 189.1	17 528.5	17 747.6	219.1	1.2
Subprogramme 1. Internal audit	15 939.8	15 851.9	17 484.4	17 747.6	263.2	1.5
Subprogramme 2. Inspection and evaluation						
Subprogramme 3. Investigations	322.3	1 337.2	44.1		(44.1)	(100.0)
C. Programme support costs						
Subtotal	**16 262.1**	**17 195.4**	**17 528.5**	**17 747.6**	**219.1**	**1.2**
Total	**107 161.6**	**112 800.8**	**118 152.9**	**118 396.9**	**244.0**	**0.2**

Note: Budget figures (after recosting) were based on the budget fascicle contained in A/72/6 (Sect. 30) and the relevant supplementary information.

5. The Committee was informed that, while the total budget had increased overall, there was a reduction of 1.6 per cent in other assessed resources. The Committee was also informed that the 1.2 per cent increase in extrabudgetary funding was due to an anticipated increase in funding for the Internal Audit Division, and not for the Investigation Division which had no projected extrabudgetary funding for the biennium 2018-2019.

6. As shown in table 1, the proposed programme budget for OIOS for the biennium 2018-2019 (regular budget) is estimated at $41,116,300 (after recosting), which is an increase of $967,900, or 2.4 per cent, compared with the 2016-2017 appropriation. While table 1 shows costs after recosting, the Committee's report generally uses values before recosting, (which exclude estimated increases owing to inflation and currency fluctuations), in order to facilitate comparisons between the budgets for the bienniums 2016-2017 and 2018-2019.

7. Table 2 presents the regular budget proposal for OIOS for the biennium 2018-2019 compared with the appropriation for the biennium 2016-2017. The proposed programme budget for OIOS for the biennium 2018-2019 (regular budget) is estimated at $39,926,900 (before recosting), which is a decrease of $221,500, or 0.6 per cent, compared with the appropriation for 2016-2017.

Table 2
Financial resources by programme
(Thousands of United States dollars)

	2013-2013	2014-2015	2016-2017	2018-2019	Variance	
					2018-2019 compared with 2016-2017 appropriation	
	Expenditure	Expenditure	Appropriation	Proposed budget (before recosting)	Amount	Percentage
A. Executive direction and management	2 783.1	3 157.7	2 988.6	2 902.8	(85.8)	(2.9)
B. Programme of work	33 117.7	34 055.0	34 647.7	34 340.2	(307.5)	(0.9)
Subprogramme 1. Internal audit	15 290.7	15 711.4	16 793.1	16 393.6	(399.5)	(2.4)
Subprogramme 2. Inspection and evaluation	7 733.4	8 151.5	7 654.9	7 603.1	(51.8)	(0.7)
Subprogramme 3. Investigations	10 093.6	10 192.1	10 199.7	10 343.5	143.8	1.4
C. Programme support costs	2 600.8	2 567.0	2 512.1	2 683.9	171.8	6.8
Total	**38 501.6**	**39 779.7**	**40 148.4**	**39 926.9**	**(221.5)**	**(0.6)**

Note: Budget figures (before recosting) were based on the budget fascicle contained in A/72/6 (Sect. 30), and the relevant supplementary information.

8. The 0.6 per cent decrease in the budget is primarily a result of a reduction in resource requirements for the Internal Audit and Inspection and Evaluation Divisions and for Executive Direction and Management. The reduction in the resource requirements was attributable mainly to, inter alia, the abolishment of two posts, from 116 posts approved in the biennium 2016-2017 to 114 posts proposed for the biennium 2018-2019, owing to efficiency gains as a result of Umoja.

9. The Committee also noted that, as at 31 March 2017, there continued to be a high vacancy rate in OIOS, especially in the Investigation Division, which has a vacancy rate of 22.2 per cent, a slight decrease from the 25.3 per cent that the Committee noted in its previous report (A/70/86). **Although the Committee was informed of the renewed effort that OIOS was putting into identifying viable alternative recruitment and retention strategies for qualified staff, the Committee is not yet in a position to assess the impact of this development. The Committee will continue to monitor this effort in future reports and will highlight any progress.**

A. Executive direction and management

10. As noted in table 2, the resource requirements for Executive Direction and Management are expected to decrease by 2.9 per cent. The Committee was informed that the reduction was mainly the result of the removal of the non-recurrent expenditures attributed to contractual services for the training on the use of the new recommendation tracking software and the redeployment of resources to programme support.

B. Programme of work

Subprogramme 1
Internal audit

11. The proposed programme budget for subprogramme 1, Internal Audit, for the biennium 2018-2019, is $16,393,600 (before recosting). The amount represents a

decrease of $399,500, or 2.4 per cent, compared with the appropriation of $16,793,100 for the biennium 2016-2017. Upon enquiry, the Committee was informed that the decrease was attributable mainly to efficiency gains as a result of Umoja, which led to the abolishment of two General Service posts. Accordingly, the Committee notes that the post requirements for internal audit have been reduced from 46 to 44 posts.

Risk-based workplanning process

12. The Committee held extensive discussions with OIOS on their risk-based audit workplanning process to ascertain how the Internal Audit Division takes organizational risk into account in determining the level of resources required to deliver the programme of work. The Committee continues to believe that using risk assessments to prioritize and allocate audit resources is a best practice, which the Committee supported in its previous reports on the budget for OIOS. On that note, OIOS informed the Committee that it continues to use a three year rolling workplan which was developed using the same risk-based approach that was used for the 2013 and 2014 workplanning. According to OIOS, the process involved validating and updating the previous years' audit universe; updating the risk universe for all client entities covering programmes, functions, structures, processes, initiatives and information technology systems; and the consideration of management requests for audits.

13. The Office of Internal Oversight Services further informed the Committee that a risk-ranked audit universe of auditable activities had been developed, taking into account the impact and likelihood of risks; the controls that exist to mitigate risks; the previous oversight activities; the results of ongoing interactions and consultations within OIOS with the Board of Auditors and the Joint Inspection Unit; and other priorities.

14. Responding to the Committee's prior concern that there was no link between the Internal Audit Division's risk assessment and the Organization's risk register, OIOS informed the Committee that the Internal Audit Division had improved the process and had provided for: (a) a clearer link between the Internal Audit Division risk registers per client and Secretariat-wide enterprise risk-management risk register; (b) an increased focus on, and attention paid to, effectiveness and efficiency; and (c) opportunities to work jointly with other OIOS divisions.

15. Recalling paragraph 15 of General Assembly resolution 69/249, in which the Assembly requested the Secretary-General to take measures to address general deficiencies in control and fraud prevention, the Committee enquired as to how the current workplan of OIOS had taken into account the recent findings of the Board of Auditors, especially with regard to fraud and internal control. In response, OIOS informed the Committee that, in its current workplan, it had placed increased focus on fraud and mismanagement.

Capacity gap assessment

16. The Office of Internal Oversight Services informed the Committee that, in order to identify the resource gaps, the Internal Audit Division had compared the available audit resources by funding type against the number of planned assignments per year based on the standard audit criteria of covering higher level residual risk areas over a three-year period. According to OIOS, the capacity-gap analysis identified that, if it had additional resources, the Internal Audit Division could increase its annual coverage of higher-risk activities for clients funded with extrabudgetary resources. The Committee was further informed that no additional resources were being requested in the light of the current financial situation.

17. **The Office of Internal Oversight Services informed the Committee that, from previous experience, OIOS had the ability to obtain sufficient resources to cover higher-risk operations and emerging activities throughout the budget period. The Committee nevertheless calls on OIOS to continue to refine its risk assessment process to ensure that the available resources only go to the highest-risk operations, which can be achieved through continued prioritization of the workplan. The Committee therefore endorses the resource requirements for the Internal Audit Division as presented.**

Subprogramme 2
Inspection and evaluation

18. The proposed programme budget for subprogramme 2, Inspection and evaluation, amounts to $7,603,100 (before recosting), representing a net decrease of $51,800, or 0.7 per cent, compared with the appropriation of $7,654,900 for the biennium 2016-2017. The Committee was informed that the reduction was mainly a result of efficiency gains that the Office plans to bring about in 2018-2019.

Risk assessment and capacity gap analysis

19. The Committee was informed that the Inspection and Evaluation Division continued to refine and improve its risk-assessment approach. In addition to utilizing a combination of risk information from the Internal Audit Division, an assessment of entities' monitoring and evaluation capacity and the budget size of the entities, OIOS informed the Committee that an enhanced risk approach that considered the likelihood and the consequences of failure risk factors was used. According to OIOS, the assessment also included an analysis of the priorities set by the General Assembly, the Secretary-General and the United Nations System Chief Executives Board for Coordination for the identification of thematic topics. The Office of Internal Oversight Services indicated that the Inspection and Evaluation Division was focusing on the areas with the highest aggregate risk in terms of governance, strategy and programme and project management.

20. In the light of the Committee's prior recommendation, which called for a clearer link between the Organization's enterprise risk management and OIOS risk assessment, OIOS informed the Committee that the Inspection and Evaluation Division considered the Secretariat enterprise risk management risk register, as well as the 2017 OIOS list of high-risk issues during the risk assessment process. OIOS further noted that, to ensure consistency with enterprise risk management and OIOS critical risk areas, the Inspection and Evaluation Division planned to consider cross-cutting areas under its entity-level program evaluations or as possible topics for thematic evaluations.

21. In paragraph 25 of its previous report (A/70/86), the Committee indicates that one of the biggest aspects of the capacity gap was the inability of OIOS to reduce the evaluation cycle from a periodicity of 11-13 years to a frequency of every 8 years, in line with the requirements of the General Assembly. Upon inquiry, the Committee was informed that the Committee on Programme Coordination and the General Assembly had endorsed the OIOS proposal to reduce the regular budget evaluation cycle to eight years. This reduction means that more resources would be needed to evaluate the various entities.

22. Accordingly, OIOS informed the Committee that a fully resourced Division that meets its work requirements would involve additional resources for four staff, namely, a team leader (P-4), as well as two Evaluation Officers (P-3) and one Associate Evaluation Officer (P-2). However, cognizant of the zero-budget growth financial situation, OIOS indicated to the Committee that it had proposed to

reclassify one P-3 post as a P-4 post in order to have an experienced evaluation team leader lead one of the programme or thematic evaluations. However, the proposal was not endorsed by the Controller.

23. **The Committee noted that many of the entities to be evaluated during the biennium 2018-2019 included those that were predominantly funded from extrabudgetary resources, such as the Office of the United Nations High Commissioner for Refugees, the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), the United Nations Conference on Trade and Development, the International Trade Centre, the United Nations Environment Programme and the United Nations Human Settlements Programme (UN-Habitat). The Committee also noted that, as shown in table 1, no extrabudgetary resources have been budgeted for evaluation in the coming biennium; in fact, all of the OIOS extrabudgetary resources were for internal audit. In the light of this apparent anomaly, the Committee wishes to reiterate its previous recommendations that OIOS revisit its funding arrangements, especially in connection with extrabudgetary activities. This would be one of the ways to address the capacity gap issues that the Inspection and Evaluation Division is facing.**

24. The Committee also followed up with OIOS on its plan to undertake performance audits as another means of addressing the capacity gaps in the Inspection and Evaluation Division as stated in the Committee's previous report (A/70/86, para. 25). In response, the Committee was informed that the Internal Audit Division was developing guidance for audit teams to ensure that they bring in more efficiency and economy issues (performance) into OIOS audits. Furthermore, OIOS informed the Committee that the Inspection and Evaluation Division and the Internal Audit Division were committed to the continued development of joint efforts following the success of the review and evaluation of the strategic deployment stock.

25. **While noting the good intentions in addressing the limited resources through creative means, including performance audits, the Committee is concerned that no tangible progress has been achieved in this area and calls on OIOS to expedite the process to ensure that performance audits become an integral part of OIOS workplans.**

26. **The Committee endorses the workplan and subsequent budget of the Inspection and Evaluation Division for the biennium 2018-2019, which calls for the maintenance of the same level of resources as for the biennium 2016-2017, with a view to ensuring that the alternative strategies raised in the foregoing paragraphs will be carefully considered and adopted. The Committee also believes that without implementing those proposed plans of action, it is unlikely that the Inspection and Evaluation Division will be able to address all of the high risk areas in its portfolio, especially in the current financial environment.**

Subprogramme 3
Investigations

27. The proposed programme budget for subprogramme 3, Investigations, for the biennium 2018-2019 amounts to $10,343,500 (before recosting), representing a net increase of $143,800, or 1.4 per cent, compared with the appropriation of $10,199,700 for the biennium 2016-2017. The net increase in the overall resource requirement for the regular budget is attributable mainly to the biennial provision for the two new posts that were established in the biennium 2016-2017.

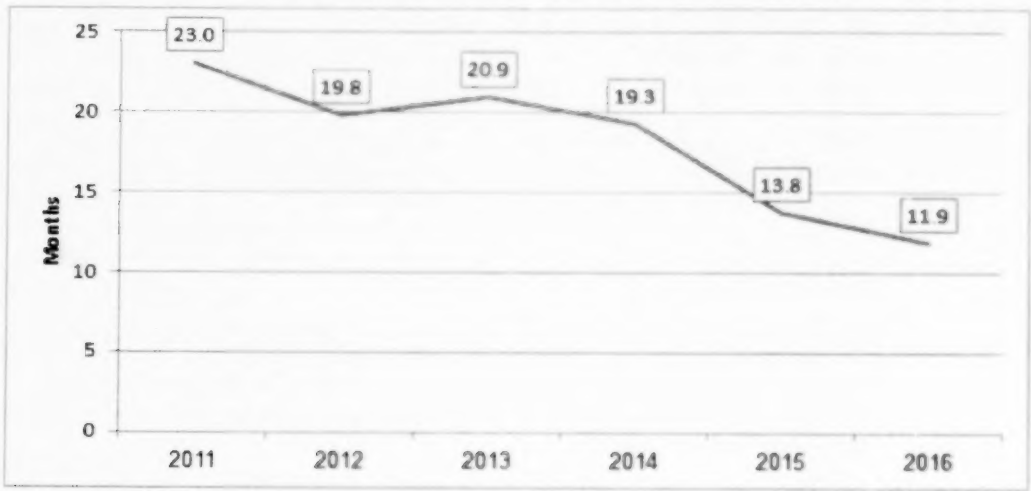
Workplan process

28. As noted in its report on the support account budget (A/71/800), the Committee continues to be cognizant of the challenges that have plagued the Division, especially with regard to its operations, internal working relationships and effectiveness. The Committee also noted that, at 18 per cent (as at 31 March 2017), the vacancy rate in the regular budget portion of the Investigations Division (although not as high as the peacekeeping support account budget) was still much higher than that of any other area of OIOS.

29. During the review process, the Committee was again informed that the Investigations Division was addressing these persistent problems, especially the recruitment and retention of staff in the Division. For instance, the Committee was informed that the average time to complete an investigation continued to decrease, from a high of 23 months in 2011 to the current level of less than 12 months (see figure I).

Figure I

OIOS average time taken to complete an investigation as at 31 December 2016



30. The Committee was also informed that in 2018-2019, the Investigations Division would place its emphasis on several initiatives designed to improve its operation, including:

(a) Maintaining the downward trajectory in the average length of time it takes to complete a case. The management of ageing cases should be such that, on the first day of the year, there would be no open cases dating from the year prior to the previous one. This means that, on 1 January 2017, there should be no open 2015 cases, and certainly no 2014 cases;

(b) Completing all sexual exploitation and abuse cases within the target 6-month time limit and all other cases within the target 12-month time limit;

(c) Continuously improving the quality of the Investigations Division reports, of all types;

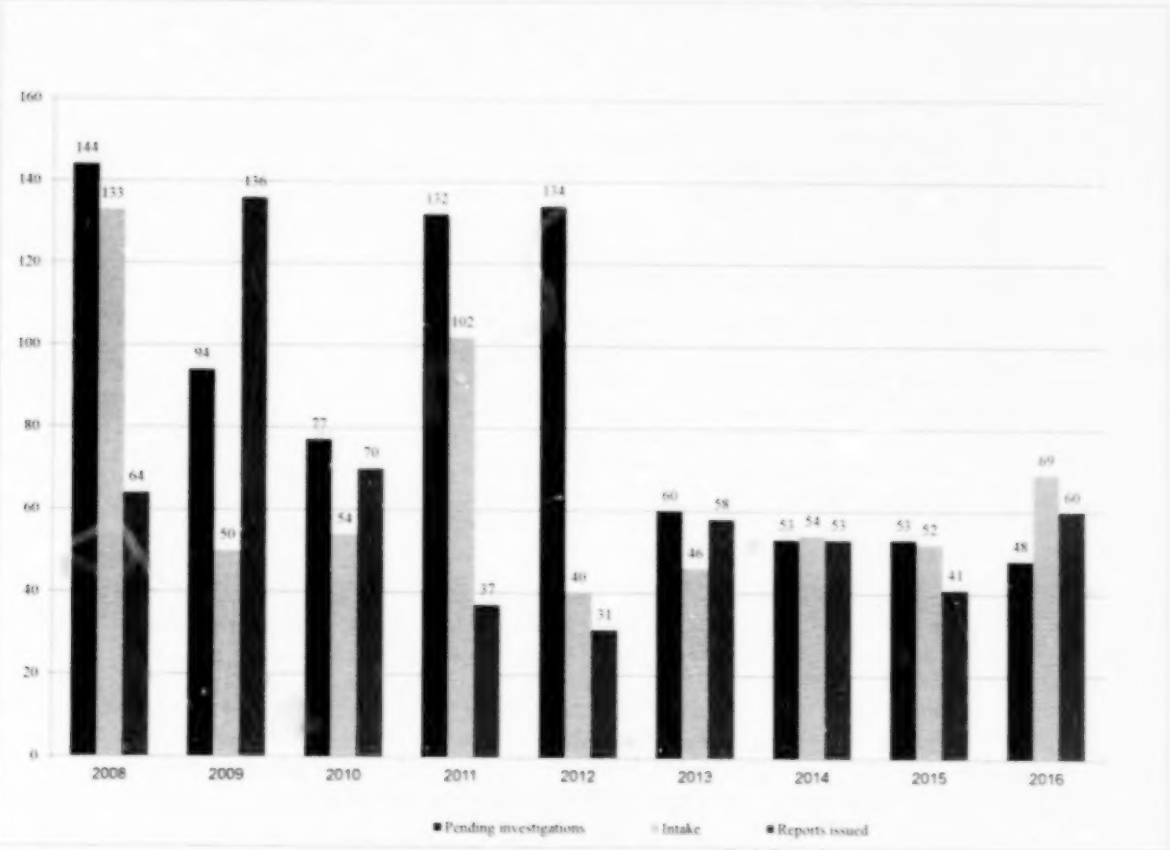
(d) Mainstreaming the digital forensics thinking into the investigation process.

31. **With the exception of the vacancy issues, the Committee welcomes the progress made so far. The Committee continues to believe that the current initiatives, if successfully implemented, will form the basis of a more effective and efficient Investigations Division. The Committee strongly encourages OIOS to continue to closely manage the implementation of the initiatives. The Committee continues to believe that augmented effort is needed to reduce the average length of time for completing an investigation, from 11.9 months, reported as at 31 December 2016, to the target of 6 months. The Committee will continue to review this matter and provide a further update in its annual report.**

Risk assessment and the capacity gap analysis

32. As part of its basis for the review of resource allocation of OIOS, the Committee continues to receive an updated trend analysis showing case load from 2008 to 2016 (see figure II).

Figure II
Investigations Division of the Office of Internal Oversight Services — regular budget caseload



Capacity gap

33. The Office of Internal Oversight Services informed the Committee that training was one of its core priorities for the biennium 2018-2019. The Office further informed the Committee that the requirement for training was in accordance with paragraph 10 of General Assembly resolution 59/287, in which the Assembly

requested the Secretary-General to increase basic investigation training for the handling of minor forms of misconduct, to develop written procedures for the proper conduct of investigations and to promote the concept of an independent investigation function within the United Nations. According to OIOS, the Office was planning to convert one P-4 post to a post of training officer in the Director's office to provide investigative training to units outside of OIOS.

34. **The Committee notes the need to fulfil the mandate of the General Assembly regarding training. In the light of the above, the Committee continues to believe that decisions about augmenting the capacity of the Investigations Division to provide investigation training should not be made in isolation, but rather in the context of the broader decisions about the overall organization, roles and responsibilities for investigations across the Secretariat.**

Risk assessment

35. With respect to risk assessment, the Committee has recommended on several occasions that OIOS include, in the context of its future budget submissions for the Investigations Division, a risk-based workplan for the Committee to review. In its report dated 27 May 2013 (A/68/86), the Committee stated that a proactive investigation unit had been established and that the forensic capacity, as well as the capacity to handle procurement-related fraud, had been improved. In paragraph 36 of previous report (A/70/86), the Committee was informed that the single forensic unit that had been set up in New York was not ideal, and that, instead, three different posts (at the P-4 level) would be established in New York, Vienna and Nairobi reporting to the Deputy Directors whose investigations they primarily support. Furthermore, on procurement fraud, the Committee was informed that the Proactive Risk Unit would enable the Investigations Division to perform more proactive procurement investigations, developed from a superior ability to conduct link-analysis between cases, entities and individuals.

36. The Committee followed up with OIOS on the status of the above initiatives and was informed that the three Digital Forensic Investigators based in New York, Vienna and Nairobi represented a key investigative tool and were invaluable resources, far outweighing the resourcing of any comparable United Nations investigations unit. Nevertheless, the Committee was informed that the current use, organization, equipping and reporting lines of these forensic units were far from satisfactory and needed to be reviewed and improved, with their use mainstreamed, especially in the light of the fact that most of the evidence was now found in computer systems.

37. **In the light of the ongoing implementation of Umoja and the wealth of valuable data it is expected to provide, and without prejudice to the expected service delivery model for the Secretariat, the Committee continues to believe that the synergies that could be created by incorporating the case management system of OIOS in the proactive risk-management process is invaluable. In the context of the new digitalized environment that the United Nations is operating under, the Committee calls on OIOS to embrace the new ways of doing business by developing its forensic and proactive risk units as a matter of priority.**

38. The above initiatives notwithstanding, the Committee was informed that the Investigations Division was not requesting additional resources for the biennium 2018-2019, in the light of the current financial situation, but rather that the number of posts would remain at 33 for the biennium 2018-2019. This position has become all the more apparent since, as shown in figure II, the regular budget caseload, which has been the basis for the Division's resource allocation, has remained constant since the biennium 2012-2014.

39. **In the light of the above, taking into account that the proposed programme budget for investigations for 2018-2019 continues to be based on trend analysis of the intake rather than a combination that would include a risk-based workplan, as the Committee has long advocated, and also taking into account the high vacancy rate, and without prejudice to the ongoing process to strengthen the investigation function in the Secretariat, the Committee continues not to be in a position to provide an overall assurance as to the adequacy of the proposed level of the investigation resources.**

C. Programme support

40. The proposed budget for programme support for the biennium 2018-2019 amounts to $2,683,900 (before recosting). That amount represents a net increase of $171,800, or 6.8 per cent, compared with the appropriation of $2,512,100 for the biennium 2016-2017. The increase in the budget is attributable mainly to the redeployment of provisions for general temporary assistance from Executive Direction and Management and the programme of work.

III. Conclusion

41. The members of the Independent Audit Advisory Committee respectfully submit the present report containing the Committee's comments and recommendations, for the consideration of the General Assembly.

(*Signed*) Maria Gracia M. Pulido **Tan**
Chair, Independent Audit Advisory Committee

(*Signed*) J. Christopher **Mihm**
Vice-Chair, Independent Audit Advisory Committee

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(*Signed*) Natalia A. **Bocharova**
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(*Signed*) Richard Quartei **Quartey**
Member, Independent Audit Advisory Committee